Why shoppers choose housewares outlets

K mart's Designer Depot debuts

Woolworth's new boss: John Lynn

# Chain Store Age

GENERAL MERCHANDISE EDITION January 1983

1/28/83
C5150-7

## SEARS: YEAR OF DECISION

TWO DOLLARS PER ISSUE

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## AIM for the best

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**CHAIN STORE AGE General Merchandise Edition** (ISSN 0193-1350) is published monthly by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Retailers: $9 a year; two years, $17; Canada, $10 a year; two years, $19. Wholesalers, manufacturers, schools, libraries and all others: $15 a year; Canada, $16 a year. Foreign subscriptions: Airmail only, $75 a year. Single copy rate $2. Second Class postage paid at New York, N.Y., and at additional mailing offices. Vol. 59, No. 1. Copyright © 1983 by Lebhar-Friedman Inc. All rights reserved.
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Aunt Nancy, are they going to start spending this year?

# Will consumers cash in their chips in '83?

**Retail observers are optimistic, forecasting real sales growth and significant profit gains for '83.**

☐ Prospects for even a moderate first half recovery in 1983 appear to be sinking in the swelling unemployment rolls and declining industrial production. Retail observers, however, are quite optimistic, forecasting real sales growth and significant profit gains in the new year. The consensus—which has been a chorus recited since early 1982—is that consumers will sooner or later "spend us out of this recession in spades," as one analyst puts it.

Economists from Sears and K mart are predicting sales gains of 10% to 12% in 1983 along with a 3.5% to 4% general merchandise inflation rate. The general consensus is for sales gains of 6%-8.5%. (As of last November, general merchandisers were experiencing little if any real year-to-date sales growth.) But the big story is a brighter profit scenario which has emerged from a year of belt tightening and improved inventory management.

"It doesn't take much in the way of sales gains for retailers to leverage earnings strongly," Paine Webber analyst Stuart Robbins explains. "We have the tightest inventory positions we've had in two years. [Retailers] came into the fall of '82 with inventories growing at a slower rate than sales gains. So markdowns are going to be lower regardless of what the consumer environment is like. Secondly, management has generally done a good job in budgeting their expenses.

"Retailers," Robbins adds, "will accelerate their earnings growth through the second quarter of 1983, outperform the market most of next year—if not the whole year—and have robust earnings. In fact, I would project that the average major retailer between January '82 and January '84 will increase their earnings 24% to 40%."

First National Bank of Chicago retail analyst Jon Goetzke agrees, but warns that a significant national retail recovery may take two years. "It's going to start slowly. The fundamental reasons people are not spending are not going to go away immediately," says Goetzke adding that sales will rise moderately in late spring.

But consumers continue to vex

retail soothsayers despite tax cuts, maturing All Saver accounts, lower debt ratios and single-digit inflation. There are good reasons why shoppers remain tightfisted, however. As Goetzke points out, "We're a consumer-oriented society, so the only time consumers don't spend is when they're real worried."

Since the early 1970's, consumers have weathered four recessions, double-digit inflation and interest rates, the economic crumbling of the nation's smokestack industries and record unemployment. Commerce Department chief economist Robert Ortner contends the United States is not "recession prone," but agrees that perception may alter consumer spending plans.

"If people have become worried that this economy is very seriously recession prone, that is, every year, every two years, we go back into a recession and unemployment goes up, that would tend to hold back spending," Ortner says.

Ortner and other analysts, though, downplay unemployment's bearing on consumer spending.

***Commerce's Ortner** forecasts home furnishings/appliance growth in '83.*

## *Chains concentrate in high unemployment states*

| | Mich. (17.2%)* | Ohio (14.2%)* | Ill. (13.2%)* | Pa. (12.1%)* | Calif. (11.2%)* | Total U.S. stores | Five state % of total |
|---|---|---|---|---|---|---|---|
| K mart | 86 | 87 | 90 | 84 | 115 | 2,396 | 19.3 |
| Penney | 66 | 84 | 59 | 66 | 165 | 2,101 | 20.9 |
| Sears** | 34 | 50 | 60 | 55 | 97 | 859 | 34.5 |
| Wards** | 17 | 11 | 23 | 22 | 55 | 389 | 32.9 |
| Woolworth | 37 | 74 | 88 | 92 | 95 | 1,306 | 29.6 |
| Totals | 240 | 306 | 320 | 319 | 527 | 7,051 | 24.3 |

**November 1982 unemployment %*
***1981 totals*
Source: *CSA* research

Ortner contends, in fact, that recent jobless figures (10.8% in November—the highest rate since 1940) are overstated because of an expanded work force. The "real" rate, he says, is about 6.5%.

Paine Webber's Robbins concurs. "In terms of the consumer's ability to spend," he explains, "it has less bearing than income growth, *employment* and other balance sheet factors."

But statistics depict a different picture. Adult male unemployment (the traditional bulk of the work force) was 10.1% in November which seems to dash the notion that blacks, teenagers and women distort the true jobless rate. In addition, New York-based The Conference Board calculates that 20% of the work force was unemployed at one time or another in 1982. Another 10%, The Conference Board has said, feel their jobs are in jeopardy.

And job prospects don't look much better in 1983 as economists forecast an unemployment rate as high as 9.8% through the end of the year. Also, Gross National Product (GNP) projections have been lowered to around 3%—the downside figure economists say is necessary to reduce unemployment. Some GNP forecasts, in fact, have been as low as 1%.

This trend does not bode well for retailers, especially those with store concentrations in high unemployment areas. For example, almost 35% of all Sears full-line units are located in five states (see chart) with unemployment rates above the national average. Ward closely follows with 32.9%, Woolworth variety outlets at 29.6% and K mart at 19.3%.

Regardless, retailers and analysts are confident consumers will unlock their healthy coffers.

"The consumer, credit-wise, is in an excellent position to buy right now and I think that is extremely healthy for the economy," says Sears Merchandising Group chairman Edward Brennan. "And it does mean when their attitude becomes more positive, they can move immediately into the market and start to buy."

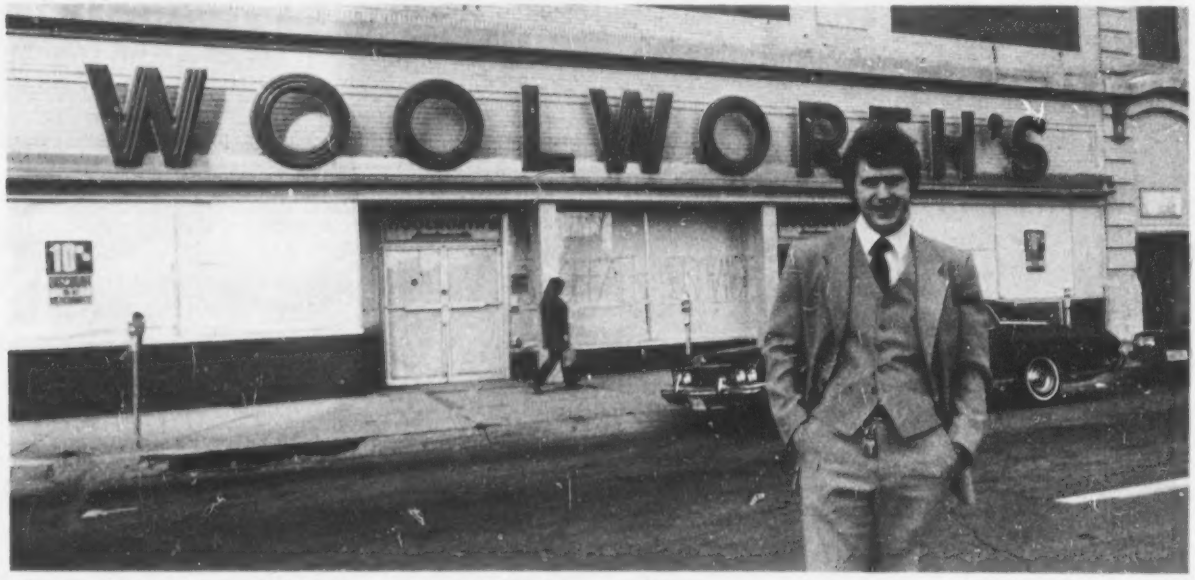
Brennan, for one, is buoyed by improvement in housing construction which could translate into sales for the soft big-ticket item sector. The Commerce Department has forecasted a 20% increase in housing starts for 1983. There are already signs of housing activity, in fact. October building permit applications were up 17.7%.

Some forecasters are already predicting a big ticket recovery. Jim Newton, chief economist at Management Horizons Inc., an Ohio-based retail consulting outfit, says "real" durable goods sales should top 10% in 1983, with strength in furniture and home furnishings.

Sears, in fact, has already recorded encouraging sales increases in appliances which Brennan attributes to the gradual release of "pent up demand."

"You'll see people make the move to spend more money, to make the move to increase their purchasing because they've been thinking the other way for so long and they're still in very good [financial] shape," Brennan predicts.

Stuart Robbins agrees. He says consumers have performed well un-




***Manager Devins blames** bad times for Woolworth's closing after 22 years.*

der the circumstances. "Given the level of unemployment, the lousy headlines, the summer doldrums, the lack of cold weather, the late Labor Day—the consumer has held up rather well in general merchandise."

Robbins adds that another encouraging factor is that "high awareness items" inflation (gasoline, food and apparel, for example) is at its lowest rate since the early 1960's. "Couple that with real income growth that is happening right now and you have a powerful spending incentive right there."

If consumers do spend, as most anticipate, retailers may be squeezed by tight inventories. The biggest challenge, notes Brennan, is "to manage inventories so they're more flexible." He adds that spot shortages could turn up as a result of conservative planning. "With the very high interest rates, none of us could really afford to gamble and make a huge investment in the anticipated recovery," he says.

Jon Goetzke warns that retailers should not overreact to sluggish economic trends. "You do not want to get in a tight situation where you could lose sales when things get better," he contends. "I think if business is stronger than expected, people could lose business because they're out of stock."

As is forecasting economic trends and consumer behavior, planning is a problematic craps shoot for merchants who anticipate the best, but plan for the worst. And 1983 could be the most confusing retail year yet, despite the rosy profit prognostications.

"Retailers are nothing more than gamblers in the sense they're trying to anticipate what [consumers] are going to buy," notes Goetzke. "But it's a hard job for a gambler to be in right now when the consumer has all the chips." □

## Rockford hits rock bottom

□ Rockford, Ill., is a retailer's nightmare. That's what Bill Hendericks will tell you when asked how in the world a small-time variety store owner remains competitive in an unemployment-riddled industrial town.

"You don't compete," says Ben Franklin owner Hendericks as he holds up his red ink-dominated ledger. "You go out of business."

Many merchants have. Others, primarily chain stores, are engaged in margin-busting price promotions in a desperate effort to maintain sales. It's the only way, merchants say, to survive in a city with too many retailers (some 20 chain stores, alone) and too few shoppers. "Rockford was overstored during the last retail boom in 1979," says First National Bank of Chicago analyst Jon Goetzke, "and it's still overstored."

There are few economic puzzles here. A northern Illinois town with a 251,000 metro population, Rockford has flirted with a 20% unemployment rate due to its heavy concentration of manufacturing jobs. The jobless rate is so acute, in fact, that a local K mart recently received 1,500 applications for 100 new jobs.

Tom Devins can empathize with the jobless. He manages a Woolworth that is closing after 22 years in Rockford's now-depressed downtown shopping strip (known as Symbol Mall). The 14,000-sq.-ft. variety store—located across from an abandoned S. S. Kress—has never been a big money maker. But it has never been this bad. According to headquarters sources, this Woolworth, which has never grossed more than $450,000 annually since 1959, now takes in a paltry $350,000.

Devins, however, blames bad times for the store's demise, adding that prices will be slashed 10% every two weeks until Christmas. "Of all the places I've been, it's the worst economy I've ever seen," he says. "This place is going to pot."

# Price and quality sway shoppers

☐ What criteria are consumers using when deciding where to shop housewares? Price, obviously, rates very high on the list. But quality plays an important role, too.

There has to be a balance between the two, points out a national consumer survey by *CSA*/Leo Shapiro & Associates, proving the retail adage "quality goods at a price" still holds true for most consumers.

Seven out of 10 consumers shop catalog showrooms and discounters for low prices and good discounts,

**The Big 3 are the only stores where quality tops price as the reason for shopping these merchants.**

notes the *CSA*/Shapiro data. Interestingly, K mart is not perceived as the lowest-priced discounter around. Nearly 1 in 5 consumers say other discounters beat K mart pricing in housewares.

Though selection and quality received high ratings, good prices are the drawing card for department and specialty stores, too. This could be a consumer reaction to the nearly constant sales promotions at the keystone price stores level, often dropping price points to discount levels.

"I'm not surprised," says Kent Anderson, housewares buyer at Diamond's. "It's a key task for us to present quality, selection and service, but price seems to be the most important issue to customers. I don't know how we'll change that."

It appears that the Big 3 catalog chains, led by Sears, have developed that critical balance between quality and price in consumers' minds. Of all the retail outlets, the Big 3 are the only stores where quality tops price as the primary reason customers shop these merchants. Price, though still an important factor, has less of an impact. For example, Sears' lack of brand name products and distinct housewares image is offset by the quality goods image the chain projects.

***Dept. stores are moving** toward higher price point, better-quality goods.*

It is not surprising that discounters were rated low in both quality and satisfactory past experiences. A Midwestern discount store exec explains, "Consumers still perceive us as they did 25 years ago when discounters first originated. We had good prices on comparable merchandise but we were not as 'presentable' or service-oriented as department stores. Now we are just as good as department stores, especially with so many discounters upscaling [to name brand merchandise

***Three out of four consumers shop discounters for price***

| | Discount stores | K mart | Other | Big 3 | Sears | Ward | Penney | Dept. stores | Specialty stores | Mail order | Factory outlet | Catalog showrooms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price/Discount | 71.5% | 63.2% | 74.7% | 20.6% | 22.3% | 28.5% | 4.2% | 43.2% | 50.0% | 61.4% | 71.0% | 75.4% |
| Selection | 3.4 | 7.4 | 2.0 | 8.0 | 8.0 | 0.0 | 14.3 | 15.4 | 18.1 | 0.0 | 0.0 | 6.8 |
| Quality | 3.5 | 0.0 | 4.9 | 20.7 | 23.1 | 5.4 | 18.0 | 9.7 | 11.7 | 23.3 | 15.9 | 6.8 |
| Satisfactory/Past Experience | 2.0 | 5.7 | 0.7 | 14.2 | 14.0 | 28.7 | 4.3 | 12.8 | 2.8 | 0.0 | 0.0 | 0.0 |
| Location/Convenient | 14.6 | 18.2 | 13.6 | 11.7 | 13.7 | 10.9 | 0.0 | 13.5 | 4.4 | 8.8 | 0.0 | 4.8 |
| Have Account There | 0.0 | 0.0 | 0.0 | 7.4 | 2.0 | 20.9 | 29.4 | 1.1 | 3.9 | 0.0 | 0.0 | 0.0 |
| Other | 3.0 | 5.5 | 1.3 | 12.8 | 13.5 | 5.6 | 14.1 | 3.0 | 7.1 | 0.1 | 13.1 | 0.0 |
| No Answer | 2.0 | 0.0 | 2.8 | 4.6 | 3.4 | 0.0 | 15.7 | 1.3 | 2.0 | 6.4 | 0.0 | 6.2 |

Source: *CSA*/Leo Shapiro & Associates

and appealing presentations]."

It is eyebrow raising to note, however, that both department and specialty stores also trailed the Big 3. Like Filene's, many department stores have traded up their housewares businesses, weeding out low performers and investing in accepted quality lines. Filene's housewares dmm John LaMonte says that his store only carries brand names such as Krup, Braun and Simac which stand for quality in the eyes of consumers.

Perhaps quality is understood by those consumers shopping at the department and specialty stores. This seems likely considering the high rating these merchants received for selections. However, some speculate that they will have to remain highly price promotional to hold onto their market share.

Mail order was also rated high for low prices and quality housewares which should prove challenging to other retailers. However, consumers note one weak spot of mail order which is its limited selections; a strong point for department stores, specialty shops and J. C. Penney. Particularly at Penney's, assortments were built up in the past few years in a strategy to have housewares become a high-profile department for the now apparel-oriented chain.

Interestingly, no full-line store group overwhelmed the consumer in location convenience, but credit was a main attraction for Montgomery Ward and Penney's. However, at department stores and Sears, it appears that credit accounts are not the primary reason pulling customers into housewares. □

# Coffeemakers brew replacement biz

□ Though electric coffeemakers appear to be a replacement business in 1983, it promises to be highly resistant to economic distress. However, profitability of the classification may be pressured. Customers are shopping prices and are buying brand name items which tend to have lower margins.

According to retailers, the business will be mostly replacement with only a small per cent arising from new homes. T.G. & Y.'s hard lines mm Gary Broadhead sees the business as just that: the replacement of nonfunctioning units. Unlike food processors where customers step up to more advanced models while still having working units, Broadhead feels that there's nothing new to entice customers into trading up their coffeemakers before they need to. Once their machines break, customers do indeed step up.

A national consumer survey conducted by *CSA*/Leo Shapiro & Associates indicates that coffeemakers will be a large replacement business next year. Of the five housewares categories tracked (including microwave ovens, microwave bakeware, popcorn poppers and food processors), coffeemakers proved to be the least affected should consumers curb spending. This suggests there is a strong immediate need for the product, perhaps as replacement items.

In actual numbers, coffeemaker shoppers are equally divided between delaying and not delaying the purchase should the economy worsen, causing them to cut back spending. This leaves 50% of those planning purchases solidly committed to buying the products, again suggesting a strong consumer need for the product.

The survey also points out that the No. 1 reason consumers shop a store is for its low prices or discounts offered on coffeemakers. Merchants agree, noting that this has made the category extremely price sensitive. The *CSA*/Shapiro study shows that less than 15% of those planning purchases had no idea of price while the median price anticipated is $29. Approximately 2 out of 5 consumers expect the merchandise to retail between $26 and $50, a realistic range say the retailers.

Drip coffeemakers will snare the lion's share of the market. Almost unanimously merchants say their No. 1 brand is Mr. Coffee followed by Norelco and General Electric.

The *CSA*/Shapiro statistics confirm the merchants' suspicions that coffeemaker shoppers are very brand conscious. Approximately two-thirds of all coffeemaker shoppers say they are planning to buy an advertised brand while only 6% mentioned a store brand.

Moreover, customers wanting the store brand were not as sure they'd actually buy it as were those shoppers wanting the national brand. Not one shopper in the market for a store brand was totally committed to the private label.

On the other hand, of those preferring an advertised brand, 27.6% say that's what they definitely want. Of that group, 25.7% say they definitely would not buy a store

brand over a nationally advertised one.

Still, one-fourth of the coffeemaker shoppers remain uncommitted to a national brand. This presents a good opportunity for merchants to improve profits by selling comparable feature, higher-margin brands at competitive prices. □

## Name's the game in food processors

□ Names. To some consumers they connote quality while to others they are a status symbol. But no matter what product brandishes it, consumers like names. They wear them on their jeans and sleep with them decorating their sheets. And now they even insist on buying "prestigious" food processors.

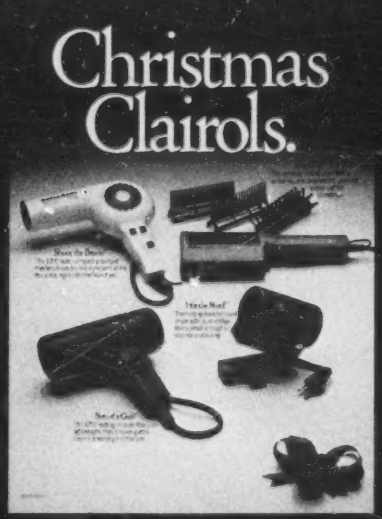
In a recent *CSA*/Leo Shapiro & Assoc. consumer study, food processor shoppers shaped up as highly

***Cuisinart still dominates*** *the market in the upper price points.*


# We've made it to the top by keeping up appearances.

What to look for in a roller when you can't see the difference.
On the outside, most people can't see the difference between Clairol's Kindness® roller and everybody else's.
Which disappoints us, because if you look very closely, you'll see that ours has gentle ribs and raised rims for smoother, tangle-free sets.
But the biggest difference is the one you can't see: the inside.
This heated roller is plastic to the core.
Clairol gives you an inner core that holds heat longer.
Clairol rollers have an exclusive high-energy inner core. They keep more heat longer than all-plastic rollers, give you maximum curl power, and leave your hair with twice the body it had before.
Now that you've seen Clairol's inside story, you know that there really is a difference between rollers. It's the difference that has made Clairol America's #1 hairsetter.
Clairol Appliances.
The power to make you beautiful.

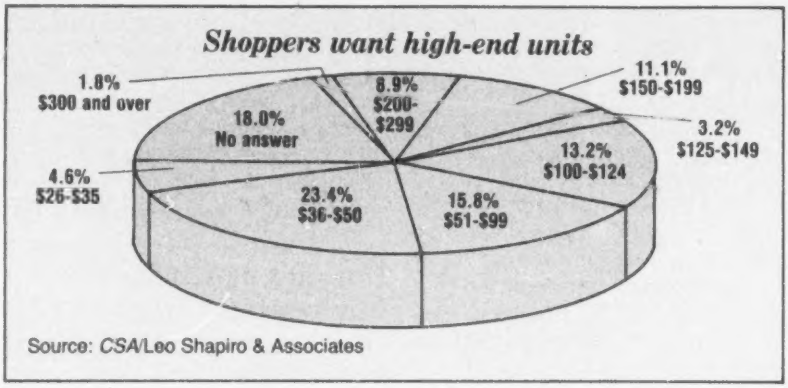
The days are long and time is short for the woman on the go. But we can still be beautiful.
Clairol has the power to make you beautiful.



brand conscious, perceiving the average price of one at $91. Considering that the majority of models available retail between $40 and $75, the data suggests customers prefer the high-end goods made by less than a half-dozen manufacturers such as Cuisinart and Robot-Coupe.

In fact, 54.3% of the shoppers polled want an advertised brand name while only 14.4% want a store brand. Of those wanting a store or advertised brand, one-fourth say they definitely want the brand they mentioned. When the sample is narrowed to just those naming an advertised brand, those who definitely want the name mentioned increases to 30.6%. This was the second strongest reaction to name brand merchandise of the five housewares items reviewed.

Merchants concur with the data. Sage-Allen's housewares buyer Steve Brody says that Cuisinart still dominates the market in the upper price points but Moulinex's La Machine does well at under $50. As Brody sees it, the market penetration is high for all food processors but sales continue to grow. Some consumers are replacing their current food processors with higher-end units while new purchases are being made in both the higher and lower price points.




Of those polled in the *CSA*/Shapiro study, 5.6% bought a food processor last year. Additionally, without any overly aggressive promotional campaigns, 1.6% of the total sample is predisposed to buy one during 1983 and nearly 1% has already shopped this merchandise in recent months. If economic conditions cause these shoppers to cut back on spending, approximately 2 out of 3 shoppers will delay this purchase. However, that still leaves one-third of the market as good prospects.

Moreover, the survey shows that discounters will garner most of the


# Clairol Appliances.

The power to make you beautiful.™

The appearance of our customers is important to us. But so is the way we appear to them. So we spend more on advertising than any other beauty appliance company.

From hairsetters to foot massagers, our products have been supported with ads that give them a fresh, exciting appearance.

In 1981, we ran 53% of all advertising for hair dryers; 86% for foot massagers; 65% for lighted mirrors; and we ran 94% of all advertising for hairsetters.

Spending more on advertising than our competitors helps keep Clairol at the top. After all, the better we keep up our appearances, the more women will appear in your store asking for Clairol.

Clairol invents CareSetting.
Hairsetting that actually takes care of your hair.
Clairol Appliances.
The power to make you beautiful.

food processor business by racking up 28.7% of the market. K mart accounts for roughly one-fourth of those sales.

The rest of the business comes from department stores, 19.4%, and the Big 3 catalog chains, 17.8%. Sears contributes all but 0.8% of the mass merchants' total while Penney grabs the rest. One-fourth of all shoppers remain uncommitted to a store, providing yet another chance for retailers to increase market share.

The main differences between where food processor customers will shop and wh they previously shopped are tha full-line department stores, Penney's and Montgomery Ward, lose business to the discounters and catalog showrooms take a plunge. Last year, catalog showrooms accounted for 11.6% of the total market while the survey pegs future sales at 7.5%.

Shoppers overwhelmingly say that low prices are the first consideration for selecting the store they plan to shop for this item. Other reasons include quality, convenient location and selection. □

# Housewares really cooks at Dayton's

□ Dayton's recently brought a new housewares concept to full boil after letting the idea simmer and thicken for over a year. The concept creates a specialty store atmosphere in housewares called "the Marketplace at Dayton's."

Housewares items are merchandised in four shop-like areas designated by product end-use—food preparation, serve/entertainment, storage. Tried and true in other department stores, such as May Co.-Los Angeles, this type of presentation eases shopping by making it less confusing for customers. Additionally, the marketing strategy incorporates the logo in signing, advertising and on packaging such as bags and boxes.

"It [the concept] gives us an umbrella to develop a housewares image under," says divisional vp/ George Collins, likening the look to Macy's The Cellar concept. However, he adds, "We're not trying to be a New York store in Minneapolis."

Joel Kaplan, home furnishings fashion coordinator, explains that Dayton's won't have the enormous selections found in The Cellar. Instead, he says, "We're targeting for the best merchandise to make each statement."

**Dayton's new concept, the Marketplace, creates a specialty store atmosphere in housewares.**

Prior to instituting this new strategy, the 16-unit Minneapolis-based retailer took a close look at its market. The research revealed that the Twin Cities had a strong future due to the new City Center and extensive skywalk system in downtown Minneapolis and the Town Square Center in St. Paul. Additionally, it showed that Dayton's market included two million-plus people generating over $10.5 billion in retail sales.

The data also pointed out that the Twin Cities' market has a younger population compared with the national average. In particular, the Minneapolis/St. Paul area boasts 17% more people in the 25- to 34-year-old age group—a key factor in the housewares market. As a matter of fact, a study conducted by *CSA*/Leo Shapiro & Assoc. shows that on average more than 25% of the housewares market falls within these age perimeters. Furthermore, Minneapolis' median income, $22,788, is higher, notes Dayton's research, while the Census Bureau

## Discounters fight for bin sales

□ "If you can't stand the heat, get out of the kitchen" is the philosophy many department store merchants are adopting when it comes to plastic stackable bins. Among those retreating is Horne's, where dmm Dudley Clark explains, "We used to carry them but volumes began eroding so we got out."

Once a high-volume, good-margin item, plastic bins now generate mediocre sales for many upstairs housewares departments. Yet 14% of those shoppers who have bought these items within the past 12 months say they will buy them again, notes a *CSA*/Leo Shapiro & Associates consumer study. This suggests that consumers are satisfied with the merchandise, but not with department store prices.

Merchants concede that plastic storage bins have become an extremely price-sensitive classification due to tough competition. But despite the low margins, discounters have aggressively fought for a chunk of this high-volume business. Allan Sherman, Gold Circle's dmm/vp home furnishings reveals the discounters' main weapon: "Mass merchants promote it more often [than department stores]."

The *CSA*/Shapiro survey proves the discounters' efforts have not been in vain. They have successfully positioned themselves as the No. 1 source for plastic storage bins.

Nearly 1 in 3 shoppers planning bin purchases say they will buy at a discount operation while only 3.5% mentioned department stores. The rest of the consumers will shop for these products at grocery stores (14%), hardware stores (10.5%) and other retailers (5.3%), leaving more than one-third of the prospective shoppers undecided as to a store. With consumers perceiving the median price tag at $3.90, according to the *CSA*/Shapiro figures, and with merchants noting that these items are generally multiple purchases, this could mean substantial business to the shrewd merchants who pick up the remaining market share. □

***Consumers seek the** same quality graphics and control units found in arcades.*

## Consumers taking the arcade home

☐ "Without a doubt, arcade translations—I don't want to call them knockoffs—are the hottest-selling video game cartridges," says Sears buyer Tom Bell. As a matter of fact, at the beginning of December, half of the Top 10 games were arcade items, according to *Billboard's* biweekly tracking of the industry.

Duplicating arcade action at home is an increasingly important part of the video game business. Consumers are demanding arcade games more than any other single category, and they want the same high-quality graphics and control units that they find in the commercial arcades.

And while more game units are sold for use with Atari's 2600, there is growing demand for the superior third-generation graphics available with Atari's new 5200 Home Entertainment System, ColecoVision and Mattel's Intellivision. "About 20% of our unit sales are for these second-generation systems," says a store source at Oklahoma City-based John A. Brown.

"There is a certain percentage of players who are really serious about the games," adds Sears' Bell. "These customers want the best console available. They are also very interested in higher-quality joy sticks and track-ball controllers."

At Dayton's in Minneapolis, buyer Jim Brinkman says about "10% of our sales are in accessories." Because of the specialized nature of these accessories, there hasn't been quite the footballing of prices that has taken place with the game consoles themselves. Department stores appear to be raking in gross margins of 50% and more for such items as Wico's Command Control Joystick and Track Ball Command Control.

Virtually all retailers agree that this upscale market will gain in importance as consumers upgrade their consoles and more sophisticated game cartridges come into the market. "Right now, it's a horse race between Atari's 5200 HES and ColecoVision," says a New England discount store buyer. "But I think once Atari brings out its adapter so games for the 2600 can be played on the new machine, the 5200 will be the big winner."

Brinkman adds that the "Atari name will have a lot to do with it. It's really almost a generic term now."

Even though Atari appears to have the edge, most retailers say they will continue to stock the other systems as well. "The potential market is so big, it's staggering. All of the main-line consoles are going to pick up enough sales to earn their place in the stores," says a Sunbelt discount chain buyer.

Despite the tremendous growth in demand for better-quality consoles, prices of the upscale units are already taking a beating. Mattel's Intellivision console was promoted for $149 (after a $50 rebate from Mattel) at Norwalk, Conn.-based Caldor and other discounters during the Christmas season. Both the Atari 5200 and ColecoVision were selling below $200 at year's end.

Retailers note, though, that top cartridges, while softening in price, are still moving like hotcakes with price points over $30. "As long as new cartridges keep attracting the consumers the way they do, there is a decent profit to be made," notes a store source at Intellectrix, a video game/home computer specialty chain located in the Southwest. ☐

## Audio sales down, but demand is hot

☐ For the third year in a row, sales of home audio systems continue to hold their own, but little more. Yet, in a *CSA*/Leo Shapiro & Associates study of consumer buying plans, stereo systems rank high among potential purchases.

A surprising 7.4% of survey respondents say they purchased a home stereo item last year and 4.1% say they might buy audio equipment in 1983. Over half of potential buyers have already begun shopping, according to the survey, but it may take some time before this interest translates into sales.

Because of the relatively high prices for stereo equipment, retailers say their customers shop longer before deciding to buy. "They've got a pretty good idea of what they want," notes a Sunbelt department store electronics merchandiser, "but our customers take a while to convince themselves to spend the money."

The baby boom generation, to whom music is a vital part of life, is the most important group of consumers for home stereo items. While making up only 35.8% of all survey respondents, 64.2% of potential buyers are age 34 or younger.

But these "children of the electronic age" are also the target market for video recorders, portable stereo/headphone combos, home computers and the myriad of other electronics products in stores today.

## Relatively high prices of stereo equipment force consumers to shop longer before deciding to buy.

"There's so much competition for their discretionary dollars, that something has to lose out," notes a store source for a suburban New York J. C. Penney store. "Right now it's home audio."

This source adds that even though most stereo equipment is purchased on the chain's long-term time payment plan, consumers are "being more cautious about putting together a $1,000 system in one shot."

While high-ticket components began to show some improvement in sales toward the end of 1982, most shoppers are planning on spending less than $500 for a stereo system, and one in three expects to pay between $200 and $399, according to the *CSA*/Shapiro poll.

This concentration on moderate price points may force GMers to reevaluate their product mixes. Already, Caldor, the 79-unit upscale discount chain, has reduced its commitment to high-ticket, high-quality stereo components from Pioneer and Sony. Launched slightly more than a year ago, the trade-up experiment failed to produce the expected volume. Other discounters, and even some department stores, have also reallocated inventory dollars to faster-moving products like video games and home computers.

General merchandise chains, however, remain a potentially strong source for home audio systems. While electronics specialty stores were cited by 31.4% of the potential buyers queried by Shapiro, compared to 23% who say they will shop a chain, for those who actually bought last year the pattern was reversed. GM chains garnered 51.4% of purchases, leaving 43.1% to the specialists.

This shift may be repeated this year as the most important reason for picking an outlet is low price. Quality, which rated second, was mentioned half as often as price.

Quality, or the perception of quality, though, is important. Only 10.5% of shoppers say they plan on buying a private label home stereo in 1983. Nationally advertised

***GM chains remain** a potentially strong source for home audio systems in '83.*

***Baby boomers dominate home stereo market***

| Age | % of polling base | % of buyers | % difference |
|---|---|---|---|
| Under 20 | 2.0 | 5.2 | +160.0 |
| 20-24 | 10.2 | 22.7 | +122.5 |
| 25-29 | 12.6 | 16.5 | + 30.9 |
| 30-34 | 11.0 | 18.6 | + 69.1 |
| 35-39 | 10.6 | 10.3 | – 2.8 |
| 40-44 | 8.0 | 5.1 | – 36.3 |
| 45-49 | 7.8 | 6.2 | – 20.5 |
| 50-54 | 6.7 | 3.1 | – 53.7 |
| 55-59 | 7.0 | 6.2 | – 11.4 |
| 60-64 | 7.3 | 1.0 | – 86.3 |
| 65 and over | 16.8 | 5.1 | – 69.6 |

Source: *CSA*/Leo Shapiro & Associates

***Caldor's computer center** (above) concentrates on working models, peripherals and software.*

brands chalked up a high 63.3% of mentions.

Despite this preference for nationally branded merchandise, more than a third of all potential purchasers say they will seriously consider a store's own brand, while a further 15.8% note they may buy a private label item. □

## Software is key to computer profits

□ General merchandise chains are already well on their way to taking the lion's share of home computer sales. However, cutthroat competition is making this an empty victory. Price cutting of computer consoles has reduced margins to less than 20%, and promotional events regularly feature the Atari 400, Commodore VIC-20 and Texas Instruments 99/4A only a few dollars above retailer cost. "These computers are following the path of just about every product in the electronics business," notes a store source at a suburban New York J. C. Penney outlet. "As soon as they catch on, everybody beats the price to death."

The situation for computers is almost identical to that of video games. Retailers are selling the consoles at the lowest possible price in the hope that they will be able to balance their margins with increased sales of software programs and peripheral accessories.

Already, pioneering discounters and dept. stores are realigning their merchandising to emphasize higher-margined software packages instead of mainframe units.

Target, Dayton Hudson's 160-plus-unit upscale discounter which began carrying Atari 400 computers a year ago strictly as a cash-and-carry item, has instituted a complete point-of-purchase program aimed at producing "package" sales of both hardware and software. Using Target-developed signing, in contrast to most discount chains where manufacturer displays are the rule, the program is in "virtually all stores," according to a company spokesman.

Although no figures are available, the program appears to be paying off in sales of software, as well as sales of Atari 400 and Texas Instruments 99/4A computers.

Taking up only 12 linear feet against the back wall of the consumer electronics department, the display consists of operating models of each of the two computers carried, plus a wide selection of the most popular software program titles.

For the Atari 400, priced at $259.99, the emphasis is on game and educational programs like Superbreakout and Conversational German, both priced at $32.99. In addition, there is a selection of titles from the Atari Program Exchange Inc., priced between $14.49 and $26.99. The Program Exchange consists of user-created software packages for the 400.

The Texas Instruments 99/4A display features that company's Speech Synthesizer free when the consumer buys six command cartridges. The programs themselves are distributed between subjects like Personal Record Keeping and Household Budget Management, video games, including TI Invaders

# Older 'kids' heat up craft/hobby area

☐ Retailers are reporting strong sales growth in their craft/hobby departments, stemming, they say, from a new interest group. With more and more of the younger hobbyists spending their dollars on video and electronic games, at the expense of craft/hobby kits, adult hobby enthusiasts have been pulled into the market.

Crafts scored the highest sales percentage gains in 1981, as reported by the Hobby Industry Association of America. Crafts volume rose 10.4%, reaching $1.26 billion, accounting for 36% of the total industry retail sales of $3.5 billion. By comparison, the dollhouse furniture/materials category fell $20 million, to $110 million, during the same time period.

**Product demand among adults has changed and expanded the look of traditional crafts depts.**

Richard Bennett, director of communications of the Hobby Industry Association of America, says, "Popularity in craft/hobby items currently is resulting from adult market interest. Those products geared toward the young market, especially toy-related products, have been hit hardest."

Product demand among adults has changed and expanded the look of traditional craft departments. Craft/hobby assortments have been beefed up with the addition of craft patterns, soft sculpture, candlewicking, counter cross-stitch, stamp goods and needlepoint kits. These classifications are realizing the strongest sales gains, say retailers.

Merchants have accommodated these expanded assortments by either scaling down or eliminating more traditional classifications—crewel, embroidery, candle making, picture frame and flower arranging kits.

With craft patterns and craft kits meeting a greater variety of needs, for personal and home use, retailers are borrowing the "concept selling" method, normally used in fashion apparel and domestics departments, to build their home decorative craft business.

***Selection/assortment** rated above price when deciding where to shop for crafts.*

Connecticut-based Caldor has been experimenting with the home decorative category and is getting positive results. "We are featuring craft patterns along with more fabrics that can be used for both apparel and home decorating needs—mini-prints, calicos and ginghams," says a store spokesman.

The combination has helped Caldor's home dec category score a 10% sales increase over 81's volume figure. Currently, the craft/yarn category produces about 33% of total volume for the entire sewing/craft/fabric department for this 74-unit discounter.

"Weeding out slow movers, like higher-priced latch hook kits, and adding more coordinated trimmings and notions has helped to increase add-on sales," says the store spokesman.

"Playing off fashion color schemes similar to the domestic/housewares areas has stirred interest in the craft stitchery category," agrees a spokesman for Abilene, Kan.-based Duckwall-ALCO. "Pastel and multicolored kits in the mid- to upper-price ranges, $3.47 to $10.97, have been selling well."

Some retailers, prompted by keen consumer interest, are expanding the craft category, confident demand will remain strong.

California-based House of Fabrics offers crafts in 168 of their 600 stores. While the typical craft department size is only 300 sq. ft. to 400 sq. ft., management initiated a "craft testing department" in 8% of their craft stores late in '82. These test stores will carry 65% more craft inventory than other craft stores. Mid- to high-priced merchandise in counter cross-stitch, cross-stitch, needlepoint stitchery kits, along with a wider selection in embroidery threads will be part of the beefed-up inventory. Through close monitoring and frequent adjustments in merchandise selection the test will determine which craft goods will permanently be incorporated into all 168 units.

"Currently," says House of Fabrics buyer Chet Kubesczko, "Counter cross-stitch and needlepoint kits, between $4 and $12, are selling well."

**Selection important:** James Ritz, buyer for York, Pa.-based McCrory's, thinks, "being successful in the craft area means a good selection at the right price, all year round." Ritz maintains his customers are more interested in choice of product rather than just price. He attributes customers' growing interest in crafts to not just one, but many classifications.

Topping this shift, when McCrory's kicked off its Christmas craft merchandise in July, new classifications were included. Along with the traditional Christmas ornaments, the craft department featured some new quilt-making and needlepoint kits, as well as a new leg warmer kit to knit or crochet. These items gave the early bird gift giver a jump on the selling season.

Iris Dinneen, buyer for Raggs To Stitches, a California-based specialty store, says, "Our craft pattern assortment has expanded by 75% over last year's selection. While sales in apparel patterns have begun to decline a bit, interest in the craft pattern category keeps increasing."

Dinneen thinks people find hand-made crafts to be a good gift item. "Our decorative and creative craft classes always bring in the highest attendance," she says.

***The craft patterns category** has more than doubled over the last two years.*

**Split personality:** The popularity of craft/hobby merchandise lies in the duality of the category. Crafts can be both fun to create and, once the item is produced, it can be quite useful.

"People like to know something they have made is both useful and attractive. It is a good feeling," says Meredith Long, buyer for Oklahoma-based T.G. & Y.

Merchants agree kits for personal use, such as sweaters, scarves, bags, aprons, hosiery (leg warmers), and children's puppet, doll and costume patterns, have generated much of the excitement in their craft departments.

No doubt, economics do enter the picture when consumers decide to make-it-themselves. But not only saving money encourages consumers to create. The sense of accomplishment, ability to specialize a product (tailoring it to individual needs) and the time spent during production are all factors.

"Preprinted dolls and puppet kits are flying out the door," says a spokesman for Bentonville, Ark.-based Wal-Mart. "A low price tag is part of it, but I think the enjoyment a mother and child get while making the doll is what keeps the item selling."

"Customers like using a favorite fabric to make pillow and table runners to complete the look they want," adds a Caldor buyer. □

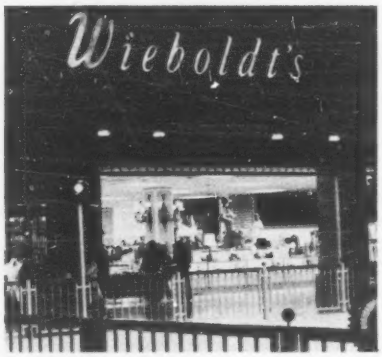
***Crafts score with older market***

| Age | Bought/might buy in coming year |
|---|---|
| Under 20 | 1.8% |
| 20-24 | 11.4 |
| 25-29 | 12.8 |
| 30-34 | 13.4 |
| 35-39 | 18.6 |
| 40-44 | 9.3 |
| 45-49 | 9.0 |
| 50-54 | 6.2 |
| 55-59 | 4.0 |
| 60-64 | 7.5 |
| 65 and over | 6.0 |

Source: *CSA*/Leo Shapiro & Associates

## Home sewers aid craft/hobby sales

□ Home sewers have been boosting craft/hobby sales, say retailers. It seems these make-it-yourselfers, once having conquered their first few battles with fabric and a needle and thread, are more likely to experiment with their talent.




***Fears mount that chmn.*** *Schottenstein will shutter ailing Wieboldt's.*

## Despite assurances, fears for Wieboldt's

In the wake of a hard-fought proxy battle for control of Wieboldt's, fears heightened that the victor, retail liquidator Jerome Schottenstein, would shutter the 14-unit, Chicago-based department store operation.

Schottenstein's four-candidate slate took the reins of the troubled chain's seven-seat board of directors with the other three board votes going to Wieboldt's management. One week after the election, Schottenstein was named chairman.

In announcing the election tally, David Keller, Wieboldt's pres./ceo who won re-election to the board and was retained along with other top management, emphasized that Schottenstein was committed to "revitalizing Wieboldt's and to preserving it as a healthy, profitable, going concern." However, Schottenstein was equally sure of salvaging Halle Brothers, which he took over a year ago and subsequently closed last summer.

Wieboldt's, which stresses apparel (approximately 65% of volume) at moderate and better price points, reported a paltry 7.2% jump in sales in 1981, primarily attributed to two additional stores. The operation lost $2.8 million during the first three quarters of '82, but Keller predicts it will break even this year. Most market watchers feel Wieboldt's must hit this target if the store, celebrating its Centennial this year, is going to be around to start its second century in '84.

***Earnings accelerate in third quarter***

| | 3rd Quarter (000 omitted) | | | 9 months (000 omitted) | | |
|---|---|---|---|---|---|---|
| | '81 | '82 | % change | '81 | '82 | % change |
| Penney | 86,000 | 77,000 | − 10.5 | 180,000 | 189,000 | + 5.0 |
| Sears[1, 2] | 74,500 | 80,900 | + 8.6 | 90,500 | 144,300 | +59.4 |
| Ward | (63,000) | (38,000) | — | (138,000) | (109,000) | — |
| Subtotal | 97,500 | 119,900 | + 23.0 | 132,500 | 224,300 | +69.3 |
| K mart | 14,000 | 30,100 | +115.0 | 105,300 | 96,600 | − 8.3 |
| G. C. Murphy | 2,519 | 2,855 | + 13.3 | 5,368 | 4,813 | −10.3 |
| Rose's | 1,267 | 1,768 | + 39.5 | 3,765 | 4,230 | +12.4 |
| SCOA (Hills) | 7,558 | 9,109 | + 20.5 | 10,437 | 12,458 | +19.4 |
| Wal-Mart | 18,673 | 26,692 | + 42.9 | 48,677 | 68,639 | +41.0 |
| Woolworth[3] | 18,000 | 14,000 | − 22.2 | 43,000 | 12,000 | −72.1 |
| Zayre | 7,400 | 11,800 | + 59.5 | 9,700 | 16,400 | +69.1 |
| Subtotal | 69,417 | 96,324 | + 38.8 | 226,247 | 215,140 | − 4.9 |
| Allied | 10,000 | 12,700 | + 27.0 | 29,900 | 20,100 | −32.8 |
| Associated Dry Goods | 10,188 | 8,172 | − 19.8 | 17,871 | 13,855 | −22.5 |
| Carter Hawley Hale | 6,817 | 4,720 | − 30.8 | 20,103 | 11,732 | −41.6 |
| Dayton Hudson[3] | 31,933 | 38,054 | + 19.2 | 63,448 | 80,848 | +27.4 |
| Federated | 51,600 | 39,700 | − 23.1 | 128,500 | 90,400 | −29.6 |
| May Co. | 18,900 | 26,700 | + 41.3 | 55,100 | 58,800 | + 6.7 |
| Mercantile | 12,899 | 16,645 | + 29.0 | 28,917 | 35,637 | +23.2 |
| Subtotal | 142,337 | 146,691 | + 3.1 | 343,839 | 311,372 | − 9.4 |
| Cole National | (1,506) | (1,139) | — | (3,123) | (1,604) | — |
| Oshman's | 920 | 368 | − 60.0 | 3,039 | 1,389 | −54.3 |
| Toys "R" Us | 3,182 | 4,734 | + 48.8 | 7,021 | 11,681 | +66.4 |
| Subtotal | 2,596 | 3,963 | + 52.7 | 6,937 | 11,466 | +65.3 |
| The Gap | 5,461 | 6,351 | + 16.3 | 5,949 | 7,725 | +29.9 |
| The Limited | 7,135 | 10,684 | + 49.7 | 14,247 | 20,181 | +41.7 |
| Miller Wohl | 4,700 | 3,000 | − 36.2 | 12,800 | 10,000 | −21.9 |
| Subtotal | 17,296 | 20,035 | + 15.8 | 32,996 | 37,906 | +14.9 |
| Total | 329,146 | 386,913 | + 17.6 | 742,489 | 800,184 | + 7.8 |

*[1]Consolidated operations only*
*[2]U.S. merchandising only*
*[3]Continuing operations only*
*( ) indicates loss.*

Source: *CSA* research

## LIFO lifts K mart third quarter net

Overall earnings accelerated in the third quarter (+17.6%) compared to the first three quarters of the year (+7.8%), based on *CSA*'s tracking of 23 chains. But the signs of recession and disinflation popped up everywhere, clouding the picture of profitability.

Just 13 of the 23 companies scored higher percentages of improved year-to-year comparisons in the third period vs. the first nine months. As groups, the Big 3, hard lines specialty chains and soft lines chains failed to beat year-to-date performances.

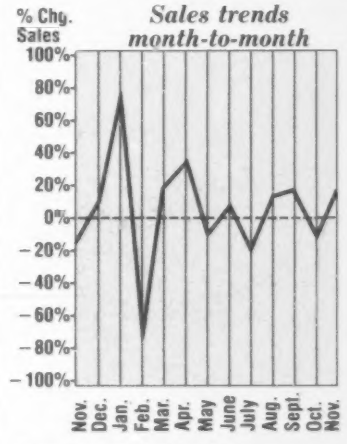
The largest quarterly increase came from K mart, but it was a paper increase. K mart's 115% upshift, which resulted in per share earnings of 24¢ vs. 12¢, resulted from nonoperational factors. The discounter had just a 4¢ per share LIFO charge vs. 21¢ a year ago. In addition, the company incurred just $10.6 million in interest expense against $27.1 million a year ago. Thus, K mart actually had a worse quarter than in '81.

Department stores continue to show softness, further evidence that they are finally suffering from lower buying resolve by their customers.

Merchandising profits at Sears cooled off considerably, an indication that it may have reached the point where expense control will no longer be able to compensate for paltry sales increases. Montgomery Ward's lower losses may indicate that its expense control program has not reached the limit as yet.

## Slower growth marks K mart's Nov. plunge

November brought more bad news for K mart as the nation's largest discounter posted its fifth month of sales declines in 1982. Company officials, for the first time publicly, placed the blame for the poor sales performance on a "reduced store opening program." In recent years, K mart's growth was primarily the result of expansion.




Composite of sales trends (increases or decreases) from month to month for the 20 retail companies tracked by *CSA*.

Overall, retailers tracked in *CSA*'s sales survey posted a meager 5.8% increase and a 4.8% hike for the first 10 months in 1982. The small increase, observers noted, was discouraging given that November 1981 was the poorest sales month that year.

Department store sales results were mixed. Dayton Hudson's department store group was up 6%; May Department Stores posted an 8.8% store for-store increase; Carter Hawley Hale increased 7% (including the specialty store divisions) and Mercantile's November sales increased 14.8%.

K mart was the big story, however. Despite operating 16 more stores than the same period a year ago, sales dropped 3.8%. K mart's year-to-date sales were up only 1.6%, from $12.8 billion to $13 billion. "The reduced store opening program in 1982 compounded weak year-to-year comparisons for K mart," company chairman Bernard M. Fauber said in a prepared statement. Fauber also blamed "consumer caution" as well as an "aggressive promotional program" in November 1981 for the poor month-to-month comparisons.

A K mart spokesman denied that Fauber was criticizing the company's past growth-through-expansion strategy. She noted that the reduced store openings affected existing stores' sales. "There were fewer grand openings for existing stores to share in," she explained.

Meanwhile, Sears officials were in better spirits. Although the General Merchandise Group posted a small 4.8% increase, the latest results were the highest November sales hike in three years. Ten-month totals for 1982 were also up—2.3%—on sales of $16.1 billion.

## November fare—yet another turkey

| MAJOR CHAINS | % change | NOV. SALES* 1982 | NOV. SALES* 1981 | STORES 1982 | STORES 1981 | 10-MO. SALES* 1982 | 10-MO. SALES* 1981 | % change |
|---|---|---|---|---|---|---|---|---|
| SEARS[1] | + 4.9 | 1,811,089 | 1,726,603 | 839 | 858 | 16,132,746 | 15,773,420 | + 2.3 |
| PENNEY | + 1.3 | 1,129,000 | 1,115,000 | 2,068 | 2,101 | 9,100,000 | 9,117,000 | − 0.8 |
| WARD[1] | − 0.5 | 529,976 | 532,722 | 389 | 401 | 4,383,382 | 4,536,886 | − 3.4 |
| FEDERATED[2] | + 10.2 | 606,800 | 550,800 | 377 | N/A | 4,864,700 | 4,497,000 | + 8.2 |
| DAYTON HUDSON | + 14.2 | 511,894 | 448,252 | 982 | 911 | 4,147,981 | 3,643,366 | + 13.9 |
| MAY DEPT. STORES | + 13.8 | 375,100 | 329,600 | 1,370 | 1,244 | 2,782,800 | 2,622,000 | + 6.1 |
| CARTER HAWLEY HALE | + 7.0 | 292,500 | 273,300 | 1,027 | 948 | 2,285,200 | 2,174,300 | + 5.1 |
| MERCANTILE | + 14.8 | 164,016 | 142,828 | 85 | 84 | 1,100,323 | 982,755 | + 12.0 |
| K MART | − 3.8 | 1,378,046 | 1,432,645 | 2,424 | 2,408 | 13,011,467 | 12,808,429 | + 1.6 |
| WOOLWORTH | + 4.3 | 622,271 | 596,649 | N/A | N/A | 5,695,574 | 5,598,280 | + 1.7 |
| HOUSEHOLD MERCH.[2,3,5] | + 5.8 | 260,109 | 245,846 | 3,802 | 4,408 | 2,366,790 | 2,347,945 | + 0.8 |
| WAL-MART | + 33.8 | 352,000 | 263,000 | 551 | 462 | 2,634,000 | 1,865,000 | + 41.2 |
| T.G. & Y. | + 17.3 | 191,540 | 163,317 | 929 | 940 | 1,644,875 | 1,488,200 | + 10.5 |
| ZAYRE[4] | + 16.0 | 218,225 | 188,161 | 630 | 581 | 1,689,308 | 1,420,117 | + 19.0 |
| MURPHY | − 5.7 | 69,032 | 73,170 | 423 | 442 | 644,217 | 630,802 | + 2.1 |
| ROSE'S | + 11.6 | 81,280 | 72,819 | 239 | 235 | 521,434 | 475,167 | + 9.7 |
| MELVILLE | + 20.2 | 292,502 | 243,396 | 5,487 | 5,149 | 2,717,525 | 2,296,363 | + 18.3 |
| TANDY | + 21.0 | 213,256 | 176,227 | N/A | N/A | 1,721,165 | 1,442,349 | + 19.3 |
| EDISON BROS. | − 1.8 | 76,121 | 77,478 | 2,155 | 2,087 | 794,882 | 823,249 | − 3.4 |
| TOTALS & AVERAGES | + 5.8 | 8,983,217 | 8,488,496 | | | 76,593,494 | 73,054,428 | + 4.8 |

**000 omitted. N.C. = no change. N/A = not available.*
*[1]Store number for full-line outlets only. [2]Plus 2,830 franchise stores (vs. 2,936 a year ago). [3]Includes T.G. & Y. sales. [4]Includes 267 Zayre stores (vs. 260 a year ago), 277 Hit or Miss stores (vs. 257) and 86 T. J. Maxx stores (vs. 64). [5]Excludes supermarket sales.*

## Retailers tax break on charitable gifts

Good news for philanthropic retailers: The Internal Revenue Service now allows tax deductions up to 100% of cost for merchandise donated to charitable groups.

Earlier this year the IRS issued a revision of the 1976 Tax Reform Act which allows merchants to deduct current cost, plus one-half of the fair market selling price (up to 100% above cost). Under previous regulations, retailers were only allowed to deduct merchandise cost.

There are two important restrictions, however. One, if the merchandise couldn't be sold prior to the contribution (left-over stock from a store closing, for example), a full deduction is not allowed. Second, total tax deductions cannot exceed 10% of the firm's taxable income.